

Attachment 14A - Prior Period Adjustments

Prior Period Adjustment (PPA):

A PPA is a material adjustment to balances reported in financial statements of a prior period due to correction of an error or change in accounting principle. Proper treatment and reporting of PPAs in current financial statements is dependent upon materiality, the period in which the error occurred, and financial statement presentation (periods presented).

Authoritative Guidance:

- Statement of Federal Financial Accounting Standard Number 21: "Reporting Corrections of Errors and Changes in Accounting Principles," available at: <http://www.fasab.gov/pdffiles/vol1v4.pdf>
- Treasury Financial Manual Transaction Scenarios at website: <http://www.fms.treas.gov/ussgl/current.html>

A PPA Appropriate When:

A prior-period adjustment is appropriate in the following two circumstances:

(1) When an error or the sum of an aggregate of errors made in the prior period(s) is discovered and the error:

- **Materially** misstates the prior-period(s) or current-period of **any** financial statements if a correction is not made, and
- Makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the inclusion or correction of the item.

(2) When there is a change from one generally accepted accounting principle (GAAP) to another generally accepted accounting principle that can be "justified as preferable."

Note: A change from an unacceptable accounting principle to GAAP is treated as correction of an error and not as a change in accounting principle.

Reporting Correction of Material Errors:

There are two ways to correct material errors depending on when the error occurred:

- **Restating Prior Period Financial Statements:** If the error occurred in the period(s) presented on the financial statement, correct the earliest affected period presented by correcting the individual lines on **every** statement that was or should have been impacted by the error.
- **Change in Cumulative Results of Operations Beginning Balance.** If the error occurred in a period earlier than those presented in the financial statements, report the cumulative effect of the error on the Statement of Changes in Net Position by adjusting the beginning balance of the cumulative results of operations for the earliest period presented. Report the cumulative effect of the error on the "Correction of Error" line on the SCNP.

Reporting Changes in Accounting Principle:

Report the cumulative effect of the change on the Statement of Changes in Net Position (SCNP) by adjusting the beginning balance of the current period cumulative results of operations. Report the cumulative effect of the change on the "Changes in Accounting

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Principles” line on the SCNP. No adjustments are made to the prior period financial statements presented.

Determining Materiality:

Materiality must be calculated against a materiality base. For example:

- If misstatement involves assets, the materiality base could be total assets;
- If misstatement involves expenses, the materiality base could be total expenses;
- If misstatement involves liabilities, the materiality base could be total liabilities (as opposed to total liabilities plus total net cost of operations).

Note also:

- The materiality base should be net of intragovernmental balances on the books of the reportable entity.
- For DoD reporting entities, an omission or misstatement is considered material if it is one percent or more of its materiality base.
- Each DoD reporting entity should calculate materiality separately. An entity is considered a reporting entity if it published financial statements for audit.

Procedures for Requesting a PPA:

All PPAs must be requested, and must be accompanied by a PPA package forwarded to the Agency Wide Audited Financial Statements Directorate. The PPA package should be prepared and forwarded ***immediately upon discovery of a material error, but no later than 15-days before the end of the quarter*** within which the need for PPA is identified.

PPA packages must include (referencing USSGLs and system GLACs, as applicable):

- Detailed explanation of what caused the error/omission or misstatement
- Explanation of how the amount was determined to be material
- The original entries made
- What the original entries should have been had there been no misstatement
- Proposed entries to effect the correction
- Documentation sufficiently substantive to support an audit
- Documented coordination with entity auditors
- An indication as to whether this transaction is a one-time occurrence

Additional Important Notes:

- Upon discovery of a potential PPA immediately contact Agency Wide Audited Financial Statements Directorate for advice.
- The Agency Wide Audited Financial Statements Directorate will review all PPA packages and determine whether packages are complete and meet requirements for a PPA.
- The Director, OUSD(C), A&FP&A will be the final arbiter for disputes.
- The Director, OUSD(C), A&FP&A will approve/deny all requests.
- The DFAS Agency Wide Audited Financial Statements Directorate will notify requestors by email of the final OUSD(C) decision.
- Any entity with an approved PPA will ensure sufficient disclosure is included in all applicable footnotes to the financial statements.